

## CHAPTER 46 WITHHOLDING

[Prior to 12/17/86, Revenue Department[730]]

### **701—46.1(422) Who must withhold.**

#### **46.1(1) Requirement of withholding.**

*a. General rule.* Every employer maintaining an office or transacting business within this state and required under provisions of Sections 3401 to 3404 of the Internal Revenue Code to withhold and pay federal income tax on compensation paid in this state to an individual is required to deduct and withhold from such compensation for each payroll period (as defined in Section 3401 of the Internal Revenue Code) an amount computed in accordance with 46.2(1) and 46.2(2). Iowa income tax is not required to be withheld on any compensation paid in this state of a character which is not subject to federal income tax withholding (whether or not such compensation is subject to withholding for federal taxes other than income tax, e.g., FICA taxes), except as provided in 46.4(422).

*b. Examples.* Paragraph “a” above may be illustrated by the following examples:

(1) *Temporary help.* A is a typist in the offices of B corporation, where she has worked regularly for two months. A is, however, supplied to B corporation by C, a temporary help agency located in Iowa. C renders a weekly bill to B corporation for A’s services, and C then pays A. B corporation is not A’s “employer” within Section 3401(d) of the Internal Revenue Code and B corporation is therefore not required by the Internal Revenue Code to withhold a tax on A’s compensation. Since B corporation is not required to withhold a tax for federal purposes on A’s compensation, B is not required to do so for Iowa purposes. The temporary help agency, however, is required to withhold from A’s compensation for federal purposes and must similarly do so for Iowa purposes.

(2) *Domestic help.* A is employed as a cook by Mr. and Mrs. B. The B’s are required to withhold FICA (i.e., Social Security) tax from compensation paid to A, but are not required to withhold from such compensation for income tax under the Internal Revenue Code, because under Section 3401(a)(3), A’s compensation does not constitute “wages”. Since the B’s are not required to withhold income tax for federal purposes, they are not required to do so for Iowa purposes.

(3) *Agricultural labor for which wages are paid prior to July 1, 1990.* A is a full-time worker on B’s farm. A’s duties include soil cultivation, raising and harvesting corn and maintenance of farm tools and equipment. B is not required to withhold from A’s compensation because the wages were paid prior to July 1, 1990, when wages for agricultural labor became subject to state income tax withholding. Therefore, B was not required to withhold for Iowa tax purposes. See subparagraph (5) below which describes the withholding of state income tax for wages paid on or after July 1, 1990, for agricultural labor.

(4) *Executives.* A is a corporate executive. On January 1, 1968, A entered into an agreement with B corporation under which he was to be employed by B in an executive capacity for a period of five years. Under the contract, A is entitled to a stated annual salary and to additional compensation of \$10,000 for each year. The additional compensation is to be credited to a bookkeeping reserve account and deferred, accumulated and paid in annual installments of \$5,000 on A’s retirement beginning January 1, 1973. In the event of A’s death prior to exhaustion of the account, the balance is to be paid to A’s personal representative. A is not required to render any service to B after December 31, 1972. During 1973, A is paid \$5,000 while a resident of Iowa. The \$5,000 is not excluded from “wages” under Section 3401(a) of the Internal Revenue Code; therefore, B is required to withhold federal income tax, and, since it is compensation paid in this state, B must withhold Iowa income tax on A’s deferred compensation.

(5) *Agricultural labor for which wages are paid on or after July 1, 1990.* Wages paid for agricultural labor on or after July 1, 1990, are subject to withholding for state income tax purposes to the same extent that the wages are subject to withholding for federal income tax purposes. In general, wages paid after December 31, 1989, for agricultural labor are subject to federal income tax withholding, if the employer pays more than \$2,500 in wages during the year to all employees or if one employee receives \$150 or more in cash remuneration in the year from the employer. The federal criteria for income tax withholding on wages paid for agricultural labor are adopted for state income tax purposes, but do not apply to wages paid for agricultural labor which are paid after December 31, 1989, but prior to July 1, 1990.

In situations where withholding agents have voluntarily withheld state income tax from wages paid in the period from January 1, 1990, through June 30, 1990, for agricultural labor, the tax withheld and remitted to the department is not subject to penalty and interest for failure to pay 90 percent of the tax by the due date. This is because the tax was not required to be withheld, since there was no obligation to withhold state income tax on wages paid for agricultural labor in instances when the wages were paid before July 1, 1990.

c. *Exemption from withholding.* An employer may be relieved of the responsibility to withhold Iowa income tax on an employee who does not anticipate an Iowa income tax liability for the current tax year.

An employee who anticipates no Iowa income tax liability for the current tax year shall file a withholding allowance certificate with their employer claiming exemption from withholding. An employee who meets this criteria may claim an exemption from withholding at any time; however, this exemption from withholding must be renewed by February 15 of each tax year that the criteria is met. If the employee wishes to discontinue or is required to revoke the exemption from withholding, the employee must file a new withholding allowance certificate within ten days from the date the employee anticipates a tax liability or on or before December 31 if a tax liability is anticipated for the next tax year. See 46.3(2).

d. *Withholding from lottery winnings.* Every person, including employees and agents of the Iowa lottery agency making any payment of "winnings subject to withholding" (defined in subparagraph (1) below) shall deduct and withhold a tax in an amount equal to 5 percent of the winnings. The tax shall be deducted and withheld upon payment of the winnings to a payee by the person or payer making this payment. Any person or payee receiving a payment of winnings subject to withholding must furnish the payer with a statement as is required under Treasury Regulation §31.3402(q)-1, paragraph "e," with the information required by that paragraph. Payers of winners subject to withholding shall file a return on Form W-2G with the Internal Revenue Service, the department of revenue and finance, and with the payee of the lottery winnings by the dates specified in the Internal Revenue Code and in Iowa Code section 422.16. The W-2G form shall include the information described in Treasury Regulation §31.3402(q)-1, paragraph "f." Other informational returns shall be filed with the department of revenue and finance whenever the Iowa lottery agency has data which shows that the aggregate winnings paid to an individual in the calendar year are \$1,000 or more.

(1) *Lottery winnings subject to withholding.* Lottery winnings subject to withholding means any payment where the proceeds from a wager exceed \$600. The rules for determining the amount of proceeds from a wager under Treasury Regulation Section 31.3402(q)-1, paragraph "c," shall apply when determining whether the proceeds from Iowa lottery winnings are great enough so that withholding is required. This rule shall apply to winnings from tickets purchased from the Multistate Lottery to the extent the tickets were purchased within the state of Iowa.

(2) Reserved.

*e. Withholding from prizes from games of skill, games of chance, or raffles.* Every person making any payment of a “prize subject to withholding” (defined in subparagraph (1) below) must deduct and withhold a tax in an amount equal to 5 percent of the prize from a game of skill, a game of chance, or a raffle. The tax must be deducted and withheld upon payment of the winnings to a payee by the person making this payment. Any person or payee receiving a payment of winnings subject to withholding must furnish the payer with a statement as is required under Treasury Regulation Section 31.2402(q)-1, paragraph “e,” with the information required by that paragraph. Payers of prizes subject to withholding must file a return on Form W-2G with the Internal Revenue Service, the department of revenue and finance, and with the payee of the prize by the dates specified in the Internal Revenue Code and in Iowa Code section 422.16. The W-2G form must include the information described in Treasury Regulation Section 31.3402(q)-1, paragraph “f.” Other informational returns must be filed with the department of revenue and finance whenever the payer has data which shows that the aggregate winnings paid to an individual in the calendar year are \$1,000 or more.

(1) *Prizes subject to withholding.* Prizes subject to withholding means any payment of a prize where the amount won exceeds \$600.

(2) Reserved.

*f. Withholding from winnings from pari-mutuel wagers.* Every person making any payment of “winnings subject to withholding” (defined in subparagraph (1) below) must deduct and withhold a tax in an amount equal to 5 percent of the winnings from pari-mutuel wagers. The tax must be deducted and withheld upon payment of the winnings to a payee by the person making this payment. Any person or payee receiving a payment of winnings subject to withholding must furnish the payer with a statement as is required under Treasury Regulation Section 31.3402(q)-1, paragraph “e,” with the information required by that paragraph. Payers of winnings subject to withholding must file a return on Form W-2G with the Internal Revenue Service, the department of revenue and finance, and with the payee of the winnings by the dates specified in the Internal Revenue Code and in Iowa Code section 422.16. The W-2G form must include the information described in Treasury Regulation Section 31.3402(q)-1, paragraph “f.”

(1) *Pari-mutuel winnings subject to withholding.* For winnings paid from January 1, 1987, through June 30, 1992, winnings subject to withholding means any payment of winnings from a pari-mutuel wager where the proceeds (winnings less amount wagered) are subject to federal income tax withholding under Treasury Regulation Section 31.3402(q)-1(b). Under Treasury Regulation Section 31.3402(q)-1(b), federal income tax is to be withheld only if the proceeds from the wager (a) exceed \$1,000 and (b) are at least 300 times as large as the amount of the wager.

For winnings paid on or after July 1, 1992, winnings subject to withholding are winnings in excess of \$1,000.

(2) Reserved.

*g. Withholding from winnings from riverboat gambling and from winnings from slot machines at racetracks.* Effective for winnings paid on or after July 1, 1992, from slot machines on riverboat gambling vessels, withholding of state income tax is required if the winnings exceed \$1,200. Effective for winnings paid on or after July 1, 1995, from slot machines at racetracks, withholding of state income tax is required if the winnings exceed \$1,200.

**46.1(2)** *Withholding on pensions, annuities and other nonwage payments to Iowa residents.* Effective for nonwage payments made to individuals on or after January 1, 1992, state income tax is required to be withheld from payments of pensions, annuities, supplemental unemployment benefits and sick pay benefits and other nonwage income payments made to Iowa residents in those circumstances mentioned in the following paragraphs. This subrule is to cover those nonwage payments described in Sections 3402(o), 3402(p), 3402(s), 3405(a), 3405(b), and 3405(c) of the Internal Revenue Code. However, no state income tax withholding is required from nonwage payments to residents to the extent those payments are not subject to state income tax. See paragraph “g” for threshold amounts for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement incomes which are made on or after January 1, 1996. Generally, no state income tax is required to be withheld from nonwage payments to residents in circumstances where the payment amounts are less than \$200 or the taxable portions of the payments are less than \$200 in situations where the payers know the taxable amounts. In instances where a payment amount or taxable amount is \$200 or more but the payment amount or the taxable amount for the year is less than \$2,400, no state income tax is required to be withheld. In the case of some nonwage payments to residents, such as payments of pensions and annuities, no state income tax is required to be withheld if no federal income tax is being withheld from the payments of the pensions and annuities. The rate of withholding on the nonwage payments described in this subrule is 5 percent of the payment amounts or 5 percent of the taxable amounts unless specified otherwise.

For purposes of this subrule, an individual receiving nonwage payments will be considered to be an Iowa resident and subject to this subrule if the individual’s permanent residence is in Iowa. The fact that a nonwage payment is deposited in a recipient’s account in a financial institution located outside Iowa does not mean that the recipient’s permanent residence is established in the place where the financial institution is situated.

The Iowa income taxes withheld from pensions and annuities may be considered separately from Iowa income taxes withheld from wages of employees for purposes of determining when withholding tax reports are to be filed with the department with the taxes withheld from the pensions and annuities. However, the payers of the pensions and annuities can also elect to aggregate the Iowa income taxes withheld from pensions and annuities with the Iowa income tax withheld from wages and remit the total amount withheld with one deposit form. One of the two options for remitting withholding tax to the department should be used for the entire calendar year.

In the case of a lump-sum distribution from a qualified retirement plan received by an Iowa resident in the tax year, state income tax is required to be withheld if the taxable amount of the distribution is \$2,400 or more and federal income tax is being withheld from the distribution.

Payers of pension and annuity benefits and other nonwage payments may withhold state income tax from these payments on the basis of tables and formulas included in the Iowa withholding tax guide of the department of revenue and finance. State income tax is required to be withheld by payers using the withholding formulas and withholding tables in situations when federal income tax is being withheld from the nonwage payments.

a. Withholding from pension and annuity payments to residents. Withholding of state income tax is required from payments of pensions and annuities to Iowa residents to the extent the payments are made on or after January 1, 1992, and to the extent the recipients of the payments have not filed election forms with the payers of the benefits which specify that no federal income tax is to be withheld. Therefore, state income tax is to be withheld when federal income tax is being withheld from the pensions or annuities. See paragraph "g" for threshold amounts for withholding from payments of pensions, annuities, and other retirement incomes which are made on or after January 1, 1996. At least 30 days prior to the first payment of pension or annuity benefits to an Iowa resident made on or after January 1, 1992, the payer of the benefits may send a letter to the recipient to notify the Iowa resident that Iowa income tax will be withheld if federal income tax is being withheld from the pension or annuity. The letter should mention that Iowa income tax will be withheld at a rate of 5 percent and will be withheld only from the taxable portion of the payment or from the total payment if the payer does not know the taxable amount.

However, although Iowa income tax is ordinarily required to be withheld from pension and annuity payments made to Iowa residents on or after January 1, 1992, if federal income tax is being withheld from the payments, no state income tax is required to be withheld if pension and annuity payments are not subject to Iowa income tax, as in the case of railroad retirement benefits which are exempt from Iowa income tax by a provision of federal law. In addition, no Iowa income tax is required from a pension or annuity payment made to an Iowa resident to the extent that the payment amounts are less than \$200 or the taxable amounts of the payments are less than \$200, in instances where the payers know the taxable amounts of the payments.

Payers of pension or annuity benefits to Iowa residents may provide an option for the withholding of state income tax from the benefits to those recipients of the pension or annuity benefits who have filed election forms with the payers that specify no federal income tax is to be withheld from the pension or annuity payments. The following is a sample notice that can be used to give Iowa residents a separate option for withholding of state income tax from pension or annuity benefits, although no federal income tax is being withheld from the benefits. The notice for withholding of state income tax should include the information shown below:

**NOTICE OF WITHHOLDING OF STATE  
INCOME TAX FROM (PENSIONS OR ANNUITIES)**

Beginning on (date) the (pension or annuity) payments you receive from the (insert name of plan or name of company) will be subject to state income tax. You have previously made an election so that no federal income tax is to be withheld from your (pension or annuity). No Iowa income tax will be withheld from your (pension or annuity) unless you complete, date, and sign the enclosed election form and return it to (name and address). If no state income tax is withheld from your (pension or annuity), you will still be subject to Iowa income tax on this income. You may be subject to penalties under rules for estimated tax if your payments of estimated tax and state withholding tax, if any, are not adequate.

If you make the election for withholding of state income tax, the amount to be withheld will be 5 percent of the taxable portion of the payment or 5 percent of the payment amount in situations where the payer does not know how much of the payment amount is taxable. However, no state income tax is to be withheld if the taxable portion of the (pension or annuity) is less than \$2,400 on an annual basis or less than \$200 on a monthly basis. Your election will remain in effect until you revoke it by stating, in writing to your payer, your intention to cease the withholding of state income tax from your (pension or annuity). Any election or revocation will be effective no later than January 1, May 1, July 1, or October 1 after it is received, so long as it is received at least 30 days before that date.

**ELECTION FOR WITHHOLDING STATE INCOME  
TAX FROM YOUR (PENSION OR ANNUITY)**

Instructions: Check the box below to have state income tax withheld from your (pension or annuity). Sign and date the election form and return the form to (insert name and address).

☐ Please withhold state income tax from my (pension or annuity).

Signed: \_\_\_\_\_

Name

Date

Return the completed election form to: (insert name and address).

*b.* Withholding from payments to residents from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts and from annuities, endowments and life insurance contracts issued by life insurance companies. Effective for payments made on or after January 1, 1992, payments to Iowa residents from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts and payments from life insurance companies for contracts for annuities, endowments or life insurance benefits are subject to withholding of state income tax if federal income tax is withheld from the benefits because the recipient of the benefits has not completed the election form to specify no federal income tax is to be withheld. However, no state income tax is to be withheld from the income tax payments described above to the extent those income tax payments are exempt from Iowa income tax. See paragraph "g" for thresholds for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement incomes which are made on or after January 1, 1996. In addition, no state income tax is to be withheld in circumstances where payment amounts are less than \$200 or the taxable portions of the payments are less than \$200 in cases when the payer knows the taxable amount of the payment. There is also no state income tax withholding in situations where the payment amount or the taxable amount is \$200 or more but the payment amount or the taxable amount for the year is less than \$2,400.

At least 30 days prior to the first payment of one or more of the above described income payments made to an Iowa resident on or after January 1, 1992, the payer of the income may send a letter to the recipient of the payment so the resident will be aware that Iowa income tax will be withheld at a 5 percent rate if federal income tax is being withheld. Although payers of the benefits listed at the beginning of this paragraph are required to withhold Iowa income tax from the benefit payments to Iowa residents starting on January 1, 1992, only if federal income tax is being withheld from the payments, the payers may give the Iowa residents a separate option for withholding of Iowa income tax in situations where the taxpayers have filed election forms with the Internal Revenue Service to provide that no federal income tax is to be withheld from the benefit payments. A sample notice for making the election for withholding state income tax is found in paragraph "a" of this subrule. That sample notice can be modified for purposes of notifying recipients that an election for withholding form may be completed for withholding of state income tax from payments from profit-sharing plans, stock bonus plans, deferred compensation plans, individual retirement accounts and from payments from life insurance companies for life insurance contracts, annuities and endowments.

In cases where the recipients elect withholding of state income tax from the income payments, the payers are to withhold from the payments at a rate of 5 percent on the taxable portion of the payment, if that can be determined by the payer or on the entire income payment if the payer does not know how much of the payment is taxable. Once a recipient makes an election for state income tax withholding, that election will remain in effect until a later election is made.

c. Withholding from payments to residents for supplemental unemployment compensation benefits and sick pay benefits. Income payments made on or after January 1, 1992, for supplemental unemployment compensation benefits and sick pay benefits are subject to withholding of state income tax under the conditions described in this paragraph. In the case of supplemental unemployment compensation benefits, those benefits are treated as wages for purposes of state income tax withholding. Therefore, state income tax should be withheld from these payments when federal income tax is withheld because the payments are treated as wages. The amount of state income tax withholding should be determined by the withholding tables provided in the Iowa employers "Withholding Tax Guide."

In the case of state income tax withholding for sick pay benefits, state income tax is to be withheld from the benefits by the payer only if state income tax withholding is requested by the payee of the benefits. However, payees of sick pay benefits should probably not request withholding from the benefits if the payees are eligible for the disability income exclusion authorized in Iowa Code section 422.7 and described in rule 701—40.22(422). If withholding is requested by the payee, the withholding should be done at a 5 percent rate on the sick pay benefits. However, no withholding of state income tax should be made if the benefit payment is less than \$200. Once withholding is started, it should continue until such time as the payee requests that no state income tax be withheld.

d. Withholding on lump-sum distributions from qualified retirement plans. Effective for lump-sum distribution payments from qualified retirement plans made on or after January 1, 1992, to Iowa residents, state income tax is required to be withheld under the conditions described in this paragraph. No state income tax is required to be withheld from a lump-sum distribution payment to an Iowa resident in a situation where the payment is not subject to Iowa income tax. See paragraph "g" for thresholds for withholding on lump-sum distributions issued on or after January 1, 1996. In addition, Iowa income tax is not required to be withheld on the distribution to the extent that the amount of the distribution or the taxable amount, if known by the payer, is less than \$2,400. Iowa income tax is to be withheld from a lump-sum distribution made to an Iowa resident to the extent that federal income tax is being withheld from the distribution. The rate of withholding of state income tax from the lump-sum distribution is 5 percent from the total distribution or 5 percent from the taxable amount, if that amount is known by the payer. Note that in the case of a lump-sum distribution, the Iowa income tax imposed on the taxable amount of the distribution is 25 percent of the federal income tax on the distribution.

e. Withholding of state income tax from nonwage payments to residents on the basis of tax tables and tax formulas. Effective for nonwage payments made on or after January 1, 1992, to Iowa residents, state income tax may be withheld from the nonwage payments on the basis of formulas and tables included in the Iowa withholding tax guide of the department of revenue and finance. See paragraph "g" for threshold amounts for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement incomes which are made on or after January 1, 1996. When state income tax withholding is being done from the formulas or tables in the withholding guide, the amounts of the nonwage payments are treated as wage payments for purposes of the tables or the formulas.

The frequency of the nonwage payments determines which of the withholding tables to use or the number of pay periods in the calendar year to use in the formula. For example, if the nonwage payment is made on a monthly basis, the monthly wage bracket withholding table should be utilized for withholding or 12 should be utilized in the formula to indicate that there will be 12 nonwage payments in the year.

The payers of nonwage payments should withhold state income tax from the nonwage payments to Iowa residents when federal income tax is being withheld from the nonwage payments. The payers should withhold from the nonwage payments to Iowa residents from tables or the formulas in the Iowa withholding guide on the basis of the number of withholding exemptions claimed on Form IA W4 which have been completed by the payees of the payments. However, if a payee of a nonwage payment has not completed an IA W4 form (Iowa employee's withholding allowance certificate) by the time a nonwage payment is to be made by the payer of the nonwage payment, the payer is to withhold state income tax on the basis that the payee has claimed one withholding allowance or exemption.

In a situation when a payee of a nonwage payment completes Form IA W4 and claims exemption from state income tax withholding when federal income tax is being withheld from the nonwage payment, the payer of the nonwage payment should withhold state income tax using one withholding allowance or exemption unless the payee has verified exemption from state income tax.

This paragraph "e" applies to all nonwage payments made to Iowa residents, including payments of pensions and annuities.

f. Withholding on distributions from qualified retirement plans that are not directly rolled over. Effective for distributions from qualified retirement plans made on or after September 1, 1993, state income tax is to be withheld at a rate of 5 percent from the gross amount or taxable amount if known by the payer of the distribution made to Iowa residents if the distributions are not transferred directly to an IRA, Section 403(a) annuity or another qualified retirement plan. The distributions that are subject to state income tax withholding are those distributions that are subject to 20 percent withholding for federal income tax purposes. However, if the gross amount or taxable amount of a distribution is less than \$2,400, state income tax withholding is not required. See paragraph "g" for thresholds for withholding from payments of pensions, annuities, individual retirement accounts, deferred compensation plans, and other retirement plans which are made on or after January 1, 1996.

g. Withholding from distributions made on or after January 1, 1996, from pensions, annuities, individual retirement accounts, deferred compensation plans and other retirement plans. Effective for distributions from pension plans, annuities, individual retirement accounts, deferred compensation and other retirement plans, state income tax is generally required to be withheld from the distributions, unless one of the exceptions for withholding in this paragraph applies. For purposes of this paragraph, the term "pensions and other retirement plans" includes all distributions of retirement benefits covered by the partial exemption described in rule 701—40.47(422).

State income tax is not required to be withheld from a distribution from a pension or other retirement plan to the extent the distribution is an income which is not subject to Iowa income tax, such as a distribution of railroad retirement benefits. State income tax is also not required to be withheld from a distribution from a pension or other retirement plan if the amount of the distribution is \$250 or less or if the taxable amount is \$250 or less, if the state taxable amount is known by the payer of the distribution. There is no requirement for withholding state income tax from a distribution from a pension or other retirement plan if the distribution is \$500 or less and the person receiving the distribution is eligible for the partial exemption of distributions from pensions and other retirement plans described in rule 701—40.47(422) and that person has indicated an intention to file a joint state individual income tax return for the year in which the distribution is made. Finally, there is no requirement for withholding from a lump-sum payment from a qualified retirement plan if the lump-sum payment is \$3,000 or less and the lump-sum payment is the only distribution from the retirement plan in the year.



**46.1(3)** Voluntary state income tax withholding from unemployment benefit payments. Effective for unemployment benefit payments made on or after January 1, 1997, that pertain to a new application for benefits made after December 31, 1996, recipients of the benefits may elect to have state income tax withheld from the benefit payments at a rate of 5 percent. An individual's election to have state income tax withheld from unemployment benefits is separate from any election to have federal income tax withheld from the benefits.

This rule is intended to implement Iowa Code sections 96.3, 99B.21, 99D.16, 99E.19, and 99F.18 and Iowa Code sections 422.15 and 422.16 as amended by 1996 Iowa Acts, House File 2229.

**701—46.2(422) Computation of amount withheld.**

**46.2(1) Amount withheld.**

*a. General rules.* Every employer required to deduct and withhold a tax on compensation paid in Iowa to an individual shall deduct and withhold for each payroll period an amount the total of which will approximate the employee's annual tax liability. "Payroll period" for Iowa withholding purposes shall have the same definition as in Section 3401 of the Internal Revenue Code and shall include "miscellaneous payroll period" as that term is defined and used in that section and the regulations thereunder.

*b. Methods of computations.* Employers required to withhold Iowa income tax on compensation paid in this state shall compute the amount of tax to be withheld for each payroll period pursuant to the methods and rules provided herein.

(1) *Tables.* An employer may elect to use the withholding tables provided in the Iowa employers' withholding tax guide and withholding tables, which are available from the department of revenue and finance.

(2) *Formulas.* Formulas are available upon request for employers who have a computerized payroll system.

(3) *Other methods.* An employer may request and be granted the use of an alternate method for computing the amount of Iowa tax to be deducted and withheld for each payroll period so long as the alternate proposal approximates the employee's annual Iowa tax liability. When submitting an alternate formula, the withholding agent should explain the formula and show examples comparing the amount of withholding under the proposed formula with the department's tables or computer formula at various income levels and by using various numbers of personal exemptions. Any alternate formula must be approved by the department prior to its use.

*c. Supplemental wage payments.* An employee's compensation may consist of wages paid for a payroll period and supplemental wages, such as bonuses, commissions, and overtime pay, paid for the same or a different period or without regard to a particular period. When such supplemental wages are paid, the amount of tax required to be withheld shall be determined by using the current withholding tables or formulas. If supplemental wages are paid at the same time as regular wages, the regular tables or formulas are used in determining the amount of tax to be withheld as if the total of the supplemental and regular wages were a single wage payment for the regular payroll period. If supplemental wages are paid at any other time, the regular tables or formulas are used in determining the amount of tax to be withheld as if the supplemental wage were a single wage payment for the regular payroll period. See subrule 46.2(3) for withholding on supplemental wage payments made on or after January 1, 1994.

*d. Vacation pay.* Amounts of so-called "vacation allowances" shall be subject to withholding as though they were regular wage payments made for the period covered by the vacation. If the vacation allowance is paid in addition to the regular wage payment for such period, the allowance shall be treated as supplemental wage payments. See subrule 46.2(3) for withholding on supplemental wage payments made on or after January 1, 1994.

**46.2(2) Correction of underwithholding or overwithholding.**

*a. Underwithholding.* If an employer erroneously underwithholds an amount of Iowa income tax required to be deducted and withheld from compensation paid to an employee within a payroll period, the employer should correct the error within the same calendar year by deducting the difference between the amount withheld and the amount required to be withheld from any compensation still owed the employee, even though such compensation may not be subject to withholding. If the error is discovered in a subsequent calendar year, no correction shall be made by the employer.

*b. Overwithholding.* If an employer erroneously overwithholds an amount of tax required to be deducted and withheld from compensation paid to an employee, repayment of such overwithheld amount shall be made in the same calendar year. Repayment may be made in either of two ways: (1) the amount of overwithholding may be repaid directly to the employee, in which case the employer must obtain written receipt showing the date and amount of the repayment, or (2) the employer may reimburse the employee by applying the overcollection against the tax required to be deducted and withheld on compensation to be paid in the same calendar year in which the overcollection occurred. If the error is discovered in a subsequent calendar year, no repayment shall be made.

*c. Cross-reference.* For effect on reporting and remitting taxes deducted and withheld when there is an erroneous underpayment or overpayment, see 46.3(3)“h.”

**46.2(3) Withholding on supplemental wage payments.** When a withholding agent makes a payment of supplemental wages to an employee on or after January 1, 1994, and the employer withholds federal income tax on a flat-rate basis, pursuant to Treasury Regulation §31.3402(g)-1, state income tax shall be withheld from the supplemental wages at a rate of 6 percent without consideration for any withholding allowances or exemptions. A supplemental wage payment is the payment of a bonus, commission, overtime pay, or other special payment that is made in addition to the employee's regular wage payment in a payroll period.

This rule is intended to implement Iowa Code section 422.16 as amended by 1994 Iowa Acts, Senate File 2057.

**701—46.3(422) Forms, returns and reports.**

**46.3(1) Employer registration.** Every employer or payer required to deduct and withhold Iowa income tax must register with the department of revenue and finance by filing an “Application for Withholding Agent's Identification Number.” The application shall indicate the employer's or payer's federal identification number. If an employer or payer has not received a federal employer's identification number, the employer should obtain one before filing the state application. It must then be filed with the department within 15 days of the date the federal employer's identification number is assigned.

Where initial payment of wages, subject to Iowa withholding tax occurs late in the calendar quarter, or before the employer's or payer's federal employer's identification number is assigned by the Internal Revenue Service, the application for Iowa withholding agent's identification number shall be forwarded along with the first quarterly withholding return. The responsible party(ies) shall be listed on the application and the application shall be signed by each of the responsible party(ies) so listed.

**46.3(2) Allowance certificate.**

a. *General rules.* On or before the date on which an individual commences employment with an employer, the individual shall furnish the employer with a signed Iowa employee's withholding allowance certificate (IA W-4) indicating the number of withholding allowances which the individual claims, which in no event shall exceed the number to which the individual is entitled. The employer is required to request a withholding allowance certificate from each employee. If the employee fails to furnish a certificate, the employee shall be considered as claiming no withholding allowances. See subrule 46.3(4) for information on Form IA W-4P which is to be used by payers of pensions, annuities, deferred compensation, individual retirement accounts and other retirement incomes to the extent the payments of the retirement incomes are made on or after January 1, 1996.

The employer must submit to the department of revenue and finance a copy of a withholding allowance certificate received from an employee if:

- (1) \*The employee claimed more than a total of 14 withholding allowances, or
- (2) The employee is claiming an exemption from withholding and it is expected that the employee's wages from that employer will normally exceed \$200 per week.

\*On or after January 1, 1991, the employer is to submit the employee's allowance certificate to the department of revenue and finance if the employee claimed more than 22 allowances.

Employers are required to submit withholding certificates on at least a calendar quarter basis to the following address:

Iowa Department of Revenue and Finance  
Audit and Compliance Division  
Hoover State Office Building  
P.O. Box 10456  
Des Moines, Iowa 50306

The department will notify the employer whether to honor the withholding certificate or to withhold as though the employee is claiming no withholding allowances.

b. *Form and content.* The "Iowa Employee's Withholding Allowance Certificate" (IA W-4) must be used to determine the number of allowances that may be claimed by an employee for Iowa income tax withholding purposes. Generally, the greater number of allowances an employee is entitled to claim, the lower the amount of Iowa income tax to be withheld for the employee. The following withholding allowances may be claimed on the IA W-4 form:

(1) Personal allowances. An employee can claim one personal allowance or two if the individual is eligible to claim head of household status. The employee can claim an additional allowance if the employee is 65 years of age or older and another additional allowance if the employee is blind.

If the employee is married and the spouse either does not work or is not claiming an allowance on a separate W-4 form, the employee can claim an allowance for the spouse. The employee may also claim an additional allowance if the spouse is 65 years of age or older and still another allowance if the spouse is blind.

(2) Dependent allowances. The employee can claim an allowance for each dependent that the employee will be able to claim on the employee's Iowa return.

(3) Allowances for itemized deductions. The employee can claim allowances for itemized deductions to the extent the total amount of estimated itemized deductions for the tax year for the employee exceeds the applicable standard deduction amount by \$200. In instances where an employee is married and the employee's spouse is a wage-earner, the total allowances for itemized deductions for the employee and spouse should not exceed the aggregate amount itemized deduction allowances to which both taxpayers are entitled.

(4) Allowances for the child/dependent care credit. Effective for Iowa income taxes withheld on or after January 1, 1991, employees who expect to be eligible for the child/dependent care credit for the tax year can claim withholding allowances for the credit. The allowances are determined from a chart included on the IA W-4 form on the basis of net income shown on the Iowa return for the employee. If the employee is married and has filed a joint federal return with a spouse who earns Iowa wages subject to withholding, the withholding allowances claimed by both spouses for the child/dependent care credit should not exceed the aggregate number of allowances to which both taxpayers are entitled. Note that effective for state income tax withheld on or after January 1, 1994, taxpayers that expect to have a net income of \$40,000 or more for the tax year should not claim withholding allowances for the child and dependent care credit, since they are not eligible for the credit.

*c. Change in allowances which affect the current calendar year.*

(1) *Decrease.* If, on any day during the calendar year, the number of withholding allowances to which an employee is entitled is less than the number of withholding allowances claimed by the individual on a withholding certificate then in effect, the employee must furnish the employer with a new Iowa withholding allowance certificate relating to the number of withholding allowances which the employee then claims, which must in no event exceed the number to which the employee is entitled on such day.

(2) *Increase.* If, on any day during the calendar year, the number of withholding allowances to which an employee is entitled is more than the number of withholding allowances claimed by the employee on the withholding allowance certificate then in effect, the employee may furnish the employer with a new Iowa withholding allowance certificate on which the employee must in no event claim more than the number of withholding allowances to which the employee is entitled on such day.

*d. Change in allowances which affect the next calendar year.* If, on any day during the calendar year, the number of withholding allowances to which the employee will be, or may reasonably be expected to be, entitled to for the employee's taxable year which begins in, or with, the next calendar year is different from the number to which the employee is entitled on such day, the following rules shall apply:

(1) If such number is less than the number of withholding allowances claimed by an employee on an Iowa withholding allowance certificate in effect on such day, the employee must within a reasonable time furnish the employee's employer with a new withholding allowance certificate reflecting the decrease.

(2) If such number is greater than the number of withholding allowances claimed by the employee on an Iowa withholding allowance certificate in effect on such day, the employee may furnish the employee's employer with a new withholding allowance certificate reflecting the increase.

*e. Duration of allowance certificate.* An Iowa withholding allowance certificate which is in effect pursuant to these regulations shall continue in effect until another withholding allowance certificate takes effect.

**46.3(3) Reports and payments of income tax withheld.****a. Returns of income tax withheld from wages.**

(1) *Quarterly returns.* Except as otherwise provided in 46.3(3) "a"(3) or 46.3(3) "b," every withholding agent required to deduct and withhold tax on compensation paid for personal services in Iowa shall make a return for the first calendar quarter in which such tax is deducted and withheld and for each subsequent calendar quarter, whether or not compensation is paid therein, until a final return is filed. The withholding agent's "Quarterly Withholding Return" is the form prescribed for making the return required under this paragraph. Monthly tax payments may also be required or semimonthly tax payments may be required instead of quarterly or monthly reports. See subparagraphs (2) and (3) of 46.3(3) "a." In some circumstances, only an annual return and payment of withheld taxes will be required; see 46.3(3) "c."

Payments shall be based upon the tax required to be withheld and must be remitted in full. Payment should not be deferred and should accompany the quarterly return.

A withholding agent is not required to list the name(s) of the agent's employee(s) when filing quarterly returns, nor is the withholding agent required to show on the employee's paycheck or voucher the amount of Iowa income tax withheld.

If a withholding agent's payroll is not constant, and the agent finds that no wages or other compensation was paid during the current quarter, the agent shall enter the word "none" on the return, sign, and submit the return as usual.

(2) *Monthly reports.* Every withholding agent required to file a quarterly withholding return shall also file a monthly tax payment form if the amount of tax deducted and withheld during any calendar month exceeds \$50. A withholding agent needs to file a monthly form even if no payment is due. No monthly form is required for the third month in any calendar quarter. The information otherwise required to be reported on the monthly form for the third month in a calendar quarter shall be reported on the quarterly return filed for that quarter and no monthly form need be filed for such month. The "Monthly Withholding Return" is provided for use with the payments required under this paragraph.

(3) *Semimonthly reports.* Every withholding agent who withholds more than \$8,000 in a semimonthly period must file a semimonthly tax payment form, unless requirements for electronic transmission of tax payments and related information specify otherwise, instead of monthly or quarterly withholding reports. A semimonthly period is defined as the period from the first day of a calendar month through the fifteenth day of a calendar month, or the period from the sixteenth day of a calendar month through the last day of a calendar month. When semimonthly reports or electronic transmission of tax payments and related information are required, a withholding agent need not file monthly or quarterly reports. The withholding agent's "Semimonthly Withholding Return" is provided for use with the payments required under this paragraph unless requirements for electronic transmission of tax payments and related information specify otherwise.

(4) *Final returns.* A withholding agent, who in any return period permanently ceases doing business, shall file the returns and statements required by subparagraphs (1), (2) and (3) of this paragraph as final returns for such period. Each return shall be marked "Final Return." There shall be executed as part of each final return a statement showing the date of the last payment of compensation, the address of which the information in regard to withholding will be kept, the name of the person keeping such records, and if the business of the withholding agent has been sold or otherwise transferred to another person, the name and address of such person and the date of which such sale or transfer took place. If no such sale or transfer took place or if the withholding agent does not know the name and address of the person to whom the business was sold or transferred, that fact should be included in the statement.

b. *Time for filing returns.*

(1) *Quarterly returns.* Each return required by 46.3(3)“a”(1) shall be filed on or before the last day of the first calendar month following the calendar quarter for which such return is made.

(2) *Monthly tax payments.* Monthly forms required by 46.3(3)“a”(2) shall be filed on or before the fifteenth day of the second and third months of each calendar quarter.

(3) *Semimonthly tax payments.* Semimonthly forms required by 46.3(3)“a”(3) for the semimonthly period from the first day of the month through the fifteenth day of the month shall be filed with payment of the tax on or before the twenty-fifth day of the same month unless requirements for electronic transmission of tax payments and related information specify otherwise. The semimonthly forms required by 46.3(3)“a”(3) for the semimonthly period from the sixteenth day of the month through the last day of the month shall be filed with payment of the tax on or before the tenth day of the month following the month in which the tax is withheld unless requirements for electronic transmission of tax payments and related information specify otherwise.

For withholding that occurs on or after April 1, 1990, semimonthly tax payments of withholding agents required to file semimonthly shall be made electronically in a format and by means specified by the department of revenue and finance. Semimonthly forms are not required to be filed when electronic transmission of tax payments is done in the prescribed format by specified means. Tax payments are considered to have been made on the date that the tax is added to the bank account designated by the treasurer of the state of Iowa.

(4) *Determination of filing status.* Iowa Code section 422.16 provides, based on the amount of tax collected, how often withholding agents file deposits or returns with the department.

The department will determine if the withholding agent’s current filing status is correct by reviewing the most recent four quarters of the withholding agent’s filing history.

The following criteria will be used by the department to determine if a change in filing status is warranted.

<u>Filing Status</u>	<u>Statutory Requirement</u>	<u>Test Criteria</u>
Semimonthly	\$8,000 in tax in a semimonthly period.	Tax remitted in 3 of most recent 4 quarters exceeds \$48,000.
Monthly	\$50 in tax in a month.	Tax remitted in 3 of most recent 4 quarters exceeds \$150.
Quarterly	All other filers.	All other filers except annual filers. See 46.3(3)“c”(2).

When it is determined that a withholding agent’s filing status is to be changed, the withholding agent will be notified and will be given 30 days to provide the department with a written request to prevent the change.

Withholding agents may request that they be allowed to file less frequently than the filing status selected by the department but exceptions will only be granted in two instances:

1. Incorrect historical data is used in the conversion. A business may meet the criteria based on information available to the computer, but upon investigation, the filing history may prove that the business does not meet the dollar criteria because of adjustments, amended returns, or requests for refunds.
2. Data available may have been distorted by the fact that it reflected an unusual pattern in tax collection. The factors causing such a distortion must be documented and approved by the income tax division.

Exceptions will not be granted in instances where the withholding agent's request is based on a decline in business activity, reduction in employees or other potentially temporary business action which will affect current and future reporting.

Withholding agents will be notified in writing of approval or denial to their request for reducing filing periods.

Withholding agents may request that they be allowed to file more frequently than the filing status selected by the department. Approval will be granted based upon justification contained in the withholding agent's request.

*c. Reporting annual withholding.*

(1) Any withholding agent who does not have employee withholding, but who is required to withhold state income tax from other distributions is exempted from the provisions of subparagraphs (2) and (3) of 46.3(3) "a," if these distributions are made annually in one calendar quarter. These withholding agents need only comply with the reporting requirements of the one calendar quarter in which the tax is withheld, and make the required year-end reports.

(2) Every withholding agent employing not more than two individuals and who expects to employ either or both for the full calendar year, may pay with the withholding tax return due for the first calendar quarter of the year, the full amount of income taxes which would be required to be withheld from the wages for the full calendar year. The withholding agent shall advise the withholding section of the Iowa department of revenue and finance that annual reporting is contemplated, and shall also state the number of persons employed. The withholding agent shall compute the annual withholding from wages by determining the normal withholding for one pay period and multiply this amount by the total number of pay periods within the calendar year. No lump sum of payment of withheld income tax shall be made without the written consent of all employee(s) involved. Consent may be affected by having the employee(s) complete the form "Iowa Employees Consent to Advance Annual Withholding." The withholding agent shall be entitled to recover from the employee(s) any part of such lump-sum payment that represents an advance to the employee(s). If a withholding agent pays a lump sum with the first quarterly return, the agent shall be excused from filing further quarterly returns for the calendar year involved unless the agent hires other or additional employees. Information returns and the "Verified Summary Report" shall be filed at the end of the tax year.

*d. Reports for employee.*

(1) *General rule.* Every employer required to deduct and withhold tax from compensation of an employee must furnish to each employee with respect to the compensation paid in Iowa by such employer during the calendar year, a statement in duplicate containing the following information: the name, address, and federal employer identification number of the employer; the name, address, and social security number of the employee; the total amount of compensation paid in Iowa; the total amount deducted and withheld as tax under 46.1(1).

(2) *Form of statement.* The information required to be furnished an employee under the preceding paragraph shall be furnished on an Internal Revenue Service combined Wage and Tax Statement, Form W-2, hereinafter referred to as "combined W-2." Any reproduction, modification or substitution for a combined W-2 by the employer must be approved by the department.

(3) *Time for furnishing statement.* Each statement required by this section to be furnished for a calendar year, and each corrected statement required for any prior year shall be furnished to the employee on or before January 31 of the year succeeding such calendar year, or if an employee's employment is terminated before the close of a calendar year, without expectation that it will resume during the same calendar year, within 30 days from the day on which the last payment of compensation is made, if requested by such employee. See 46.3(3) "e" for provisions relating to the filing of copies of combined W-2 with the Iowa department of revenue and finance.

(4) *Corrections.* An employer must furnish a corrected combined W-2 to an employee if, after the original statement has been furnished, an error is discovered in either the amount of compensation shown to have been paid in Iowa for the prior year or the amount of tax shown to have been deducted and withheld in the prior year. Such statement shall be marked "corrected by the employer." See 46.3(3) "e" for provisions relating to the filing of a corrected combined W-2 with the department.

(5) *Undelivered combined W-2.* Any employee's copy of the combined W-2 which, after reasonable effort, cannot be delivered to an employee, shall be transmitted to the department with a letter of explanation.

(6) *Lost or destroyed.* If the combined W-2 is lost or destroyed, the employer shall furnish two substitute copies to the employee and one copy to the department. All such copies shall be clearly marked "Reissued by Employer."

*e. Year-end verified summary reports.*

(1) Every withholding agent required to withhold Iowa income tax under subrules 46.1(1) and 46.4(1) shall furnish to the department of revenue and finance on or before the last day of February following the tax year, copies of the withholding statements required under paragraph 46.3(3) "d."

(2) The withholding statements required under subparagraph (1) of this paragraph shall be accompanied by a withholding information statement entitled "Verified Summary Report" which is also due on or before the last day of February following the tax year.

(3) The copies of wage and tax statements for the current calendar year transmitted with the "Verified Summary Report" shall be accompanied by a list of the amounts of tax withheld shown on the statements. If an employer's total payroll is made up on the basis of a number of separate units or establishments, the statements may be assembled accordingly and a separate list or tape submitted for each unit. In such case, a summary list or tape should be submitted, the total of which will agree with the corresponding entry made on the "Verified Summary Report." If the number of statements to be submitted is large, they may be forwarded in packages of convenient size. When submitted in this manner, the packages should be identified with the name of the employer and consecutively numbered, and the "Verified Summary Report" should be placed in the first package. The number of packages should be indicated immediately after the employer's name on the "Verified Summary Report."

(4) If an employer issues a corrected copy of a combined W-2 to an employee for a prior calendar year (see 46.3(3) "d") a copy shall be submitted to the department on or before the date fixed for filing the employer's quarterly return of tax withheld for the period ending December 31 of the year in which the correction is made, or for any period in the year for which the return is made as a final return. The copies of the combined W-2 shall be accompanied by a statement explaining the corrections and submitted separately from the department's copies of the combined W-2 being submitted for the current calendar year.

(5) Upon obtaining consent of the department of revenue and finance, an employer may submit the information contained on a combined W-2 on magnetic tape in lieu of the copies of the combined W-2 required to be submitted under subparagraph (1) of this paragraph. The consent shall be applied for in a written request to the Taxpayer Services Section, Iowa Department of Revenue and Finance, P.O. Box 10457, Des Moines, Iowa 50306.



f. *Withholding deemed to be held in trust.* Funds withheld from wages for Iowa income tax purposes are deemed to be held in trust for payment to the Iowa department of revenue and finance. The state and department shall have a lien upon all the assets of the employer and all the property used in the conduct of the employer's business to secure the payment of the tax as withheld under the provisions of this rule. An owner, conditional vendor, or mortgagee of property subject to such lien may exempt the property from the lien granted to Iowa by requiring the employer to obtain a certificate from the department, certifying that such employer has posted with the department security for the payment of the amounts withheld under this rule.

g. *Payment of tax deducted and withheld.* The amount of tax shown to be due on each return required to be filed under 46.3(3) shall be due on or before the date on which such return is required to be filed.

h. *Correction of underpayment or overpayment of taxes withheld.*

(1) *Underpayment.* If a return is filed for a return period under 46.3(422) and less than the correct amount of tax is reported on the return and paid to the department, the employer shall report and pay the additional amount due by reason of the underpayment on the next quarterly return. An explanation must be attached to the return for the period in which the underpayment is corrected, and the appropriate entry made on the quarterly withholding return.

(2) *Overpayment.* If an employer remits more than the correct amount of tax for a return period under this rule and the overpayment is discovered in a subsequent return period under this rule and within the same calendar year of the overpayment, the employer may correct the error on a subsequent return to be filed for a period within the same calendar year. An explanation must be attached to the return on which the error is corrected. If the overpayment is discovered in a subsequent calendar year, the employer may correct the error by filing a "Claim for Refund" form with the department.

**46.3(4) Iowa W-4P—withholding certificate for pension or annuity payments.** Effective for payments made on or after January 1, 1996, from pension plans, annuity plans, individual retirement accounts, or deferred compensation plans to residents of Iowa, payors of these retirement benefits are to use Form IA W-4P for withholding of state income tax from the benefits. Generally, state income tax is required to be withheld from payments of distributions from the retirement incomes described above when federal income tax is being withheld from the payments. However, no state income tax is required to be withheld from a payment to the extent the monthly payment amount is \$250 or less or the taxable amount is \$250 or less in cases where the payor knows the taxable amount of the payment. In addition, no state income tax is required to be withheld to the extent the payment amount is \$500 or less or the taxable amount of the payment is \$500 or less if the payee is eligible for the retirement benefits exclusion described in rule 701—40.47(422) and the payee indicates intention on the IA W-4P of filing a joint Iowa individual income tax return with a spouse for the tax year.

Form IA W-4P is available from the department for payors of retirement benefits that intend to withhold at a rate of 5 percent from the payment amount or taxable payment amount after the \$3,000 to \$6,000 exclusion is considered. Note that the \$3,000 to \$6,000 exclusion is to be allocated to all retirement benefit payments made in the year and not just the first \$3,000 to \$6,000 in payments made in the year to an individual. If an individual receives retirement benefits on or after January 1, 1996, and the individual has not completed Form IA W-4P, the payor is to withhold Iowa income tax from the retirement benefit payment after a \$3,000 exclusion is allowed on an annual basis.

Payors of retirement benefits who want to use withholding formulas or tables to withhold state income tax instead of at the 5 percent rate may design their own IA W-4P withholding certificate form without approval of the department.

The payors are not responsible for improper choices made by a payee in completion of the IA W-4P. However, payors cannot accept a request for exemption from the withholding of state income tax made by a payee if federal income tax is being withheld unless the payee is eligible for exemption from withholding.

This rule is intended to implement Iowa Code Supplement section 422.7 and Iowa Code sections 422.12C and 422.16.

**701—46.4(422) Withholding on nonresidents.**

**46.4(1) General rules.** Payers of Iowa income to nonresidents are required to withhold Iowa income tax and to remit the tax to the department on all payments of Iowa income to nonresidents except payments of wages to nonresidents engaged in film production or television production made on or after January 1, 1986, described in subrule 46.4(5), income payments for agricultural commodities or products made on or after January 1, 1985, which are described in subrule 46.4(6), and deferred compensation payments, pension, and annuity payments made on or after January 1, 1992, attributable to personal services in Iowa by the nonresidents. Withholding agents should use the following methods and rates in withholding for nonresidents:

*a. Wages or salaries.* Use the same withholding procedures, tables, formulas, and rates as are used for residents. See rule 46.2(422). Subrule 46.4(5) is an exception to the general rule.

*b. Payments other than wages or salaries for tax years beginning before January 1, 1988.* For tax years beginning before January 1, 1988, withholding on payments other than wages or salaries or other compensation for personal services shall be computed using the current withholding tables on gross receipts remitted to the nonresident if the withholding agent has no control over related expenses; or on net income if proper books and records are available to the withholding agent. Subrule 46.4(6) describes an exception to withholding on income payments made to nonresidents on or after January 1, 1985, for the sale of agricultural commodities or products.

*c. Payments other than wages, salaries, and other compensation for personal services for tax years beginning on or after January 1, 1988.* For tax years beginning on or after January 1, 1988, in lieu of using withholding tables or computer formulas to determine the amount of Iowa income tax to be withheld from payments made to nonresidents other than for salaries, wages, or other compensation for personal services, or income payments to nonresidents for agricultural commodities or products, Iowa income tax should be withheld at a rate of 5 percent of the amount of the payment. Subrule 46.4(6) describes the optional exemption from withholding of income payments made on or after January 1, 1985, to nonresidents for the sale of agricultural commodities or products.

Nonresidents who prefer to make Iowa estimate payments instead of having Iowa income tax withheld from income payments from Iowa sources should refer to subrule 46.4(3) and rule 701—49.3(422).

**46.4(2) Income of nonresidents subject to withholding.** Listed below are various types of income paid to nonresidents which are subject to withholding tax. The list is for illustrative purposes only and is not deemed to be all-inclusive.

1. Personal service, including salaries, wages, commissions and fees for personal service wholly performed within this state and such portions of similar income of nonresident traveling salespersons or agents as may be derived from services rendered in this state.

2. Rents and royalties from real or personal property located within this state.

3. Interest or dividends derived from securities or investments within this state, when such interests or dividends constitute income of any business, trade, profession or occupation carried on within this state and subject to taxation.

4. Income derived from any business of a temporary nature carried on within this state by a non-resident, such as contracts for construction and similar contracts.

5. The distributive share of a nonresident beneficiary of an estate or trust, limited, however, to the portion thereof subject to Iowa income tax in the hands of the nonresident.

6. Income derived from sources within this state by attorneys, physicians, engineers, accountants, and similar sources as compensation for services rendered clients in this state.

7. Compensation received by nonresident actors, singers, performers, entertainers, and wrestlers for performances in this state. See subrule 46.4(5) for an exception to this rule.

8. For compensation or wages paid prior to July 6, 1990, to nonresident employees rendering regular services for interstate common carriers such as railroads, trucking firms, airlines, bus companies, towing firms, etc., in more than one state, the wages shall be subject to Iowa withholding on that portion of the wages for services in Iowa providing more than 50 percent of the compensation paid by the carrier to such employee is earned in Iowa during the preceding calendar year. If the nonresident employee of the interstate carrier does not earn more than 50 percent of the compensation from the carrier in Iowa during the preceding calendar year, then withholding for Iowa income tax is not required. Similar provisions are likewise applicable to the wages received by nonresident employees of private property motor vehicle carriers. If the employee of the interstate common carrier or the private property carrier is a resident of Iowa, withholding on the total wages of the resident employee is required if the resident employee does not earn more than 50 percent of the compensation from the carrier in any one state. (Additional information may be obtained by referring to P.L. 91-569 as passed by the U.S. Congress and signed by the President, effective January 1, 1971.) For withholding on compensation or wages paid on or after July 6, 1990, to nonresidents or part-year residents who earn compensation in Iowa and one or more states as an employee for an interstate motor carrier or an interstate rail company, see paragraph 12 in this subrule.

9. The Iowa gross income of a nonresident, who is employed and receiving compensation for services, shall include compensation for personal services which are rendered within this state. Compensation for personal services rendered by a nonresident wholly without the state is excluded from gross income of the nonresident even though the payment of such compensation may be made by a resident individual, partnership or corporation.

10. The gross income from commissions earned by a nonresident traveling salesperson, agent or other employee for services performed or sales made whose compensation depends directly on volume of business transacted by the nonresident, includes that proportion of the total compensation received which the volume of business or sales by the employee within this state bears to the total volume of business or sales within and without the state.

11. Payments made to landlords by agents, including elevator operators, for grain or other commodities which have been received by the landlord as rent constitute taxable income of the landlord when sold by the landlord. See subrule 46.4(6) for the exemption from withholding on incomes paid on or after January 1, 1985, to nonresidents for the sale of agricultural commodities or products.

12. Wages paid on or after July 6, 1990, to nonresidents of Iowa who earn the compensation from regularly assigned duties in Iowa and one or more other states for a railway company or for a motor carrier are not taxable to Iowa. Pursuant to P.L. 101-322, the nonresidents in this situation are subject only to the income tax laws of their states of residence. Thus, when an Iowa resident performs regularly assigned duties in two or more states for a railroad or a motor carrier, the only state income tax that should be withheld from the wages paid for these duties is Iowa income tax. P.L. 101-322 was effective on July 6, 1990, and is the Amtrak Reauthorization and Improvement Act of 1990.

**46.4(3) Nonresident certificate of release.** Where a nonresident payee makes the option to pay estimated Iowa income tax, a certificate of release from withholding will be issued by the Iowa department of revenue and finance, estimate tax section, to the designated payers. The certificate of release will be forwarded to the specified withholding agent(s) and payer(s), and will state the amount of income covered by the estimated tax payment. Any income paid in excess of the amount so stated will be subject to withholding tax at the current rate. See 701—Chapter 49 for information on making estimate payments.

**46.4(4) *Recovering excess tax withheld.*** A nonresident payee may recover any excess Iowa income tax withheld from income of the payee by filing an Iowa income tax return after the close of the tax year and reporting income from Iowa sources in accordance with the income tax return instructions.

**46.4(5) *Exemption from withholding of nonresidents engaged in film production or television production in this state.*** For tax years beginning on or after January 1, 1986, nonresidents engaged in film production or television production in this state are not subject to state withholding on wages earned from this activity if the nonresidents' employer has applied to the department for exemption from withholding of state income tax and the employer's application includes the following information about the nonresident employees:

- a. The employees' names.
- b. The employees' permanent mailing addresses.
- c. The employees' social security numbers.
- d. The estimated amounts the employees are to be paid for services provided by the employees in this state.

The employer's application for exemption from withholding for the nonresident employees will not be approved by the department if the employer fails to provide all the required information.

Only those nonresident employees described in the application for exemption from withholding will be covered when the application is approved by the department. If additional nonresident employees are hired after the initial application for exemption is filed, those employees should be described in an amendment to the application for exemption which must be filed with the department of revenue and finance.

Applications for exemption from withholding for nonresident employees engaged in film production or television production should be directed to the Taxpayer Services Section, Technical Services Division, Iowa Department of Revenue and Finance, Hoover State Office Building, P.O. Box 10457, Des Moines, Iowa 50306.

**46.4(6) *Retroactive exemption from withholding of state income tax from income payments made to nonresidents by withholding agents for the sale of agricultural commodities or products if the withholding agents making the income payments provide the department of revenue and finance with certain information about the sales.*** Retroactive to January 1, 1985, withholding agents are not required to withhold state income tax from income payments made to nonresidents or representatives of the nonresidents for the sales of agricultural commodities or products, if the withholding agents provide certain information to the department of revenue and finance about the sales. The following paragraphs describe the agricultural commodities and products that are included in the exemption from withholding, specify the information needed on the sales and clarify other issues related to the exemption from withholding. Subrule 49.3(3) describes an election for withholding agents to make estimate payments on behalf of nonresident taxpayers for net incomes of the nonresidents from agricultural commodities or products in tax years beginning on or after January 1, 1989.

- a. Agricultural commodities or products included in the exemption from withholding. Withholding agents are not required to withhold state income tax from income payments they make on or after January 1, 1985, to nonresidents or representatives of the nonresidents for the sale of commodity credit certificates, grain (corn, soybeans, wheat, oats, etc.), livestock (cattle, hogs, sheep, horses, etc.), domestic fowl (chickens, ducks, turkeys, geese, etc.), or any other agricultural commodities or products, if the withholding agents provide the department of revenue and finance with the information specified in paragraph "b" of this subrule.

*b.* Information to be provided to the department for years beginning in 1988 by withholding agents claiming exemption from withholding on income payments made to nonresidents for the sales of agricultural items. The following information is to be provided on a listing to the department of revenue and finance by withholding agents electing exemption from withholding of state income tax on income payments, made in the calendar year, starting with the 1988 year, to nonresidents or representatives of the nonresidents on the sales of agricultural commodities or products made in the year:

- (1) Name of the nonresident (last name, first name and middle initial).
- (2) Home address of the nonresident.
- (3) Social security number of the nonresident.
- (4) Aggregate payments made in the calendar year for the nonresident (includes payments made to a representative of the nonresident on behalf of the nonresident).
- (5) Nexus verification—Two digit Iowa county code number of the first one of the following that applies to the nonresident:
  1. County in which the nonresident owns real property or personal property.
  2. County in which the nonresident leases real property or personal property.
  3. County in which the nonresident has agricultural products stored or livestock was located.
  4. County where the nonresident has performed custom farming activities in the year.
  5. County where the nonresident has other business activities in Iowa other than merely sales activities.

If a nonresident does not own or lease property in Iowa or have other nexus or connection with Iowa as described in 46.4(6) “*b*”(5), items “3,” “4,” and “5,” the nonresident is not subject to Iowa income tax on the income payments for agricultural commodities or products and the nonresident’s income payments should not be included on the listing.

In a situation where a withholding agent is unable to get all the information that is to be provided to the department on income payments on sales of agricultural items, the agent is relieved of the requirement to withhold if the agent can provide written evidence showing an attempt was made to acquire all the information.

The listing of aggregate income payments to nonresidents with an Iowa nexus for sales of agricultural commodities and products in the calendar year should be sent to the department by the withholding agent on or before April 1 of the year following the year in which the income payments were made. In lieu of the listing, the withholding agent may compile the information on aggregate income payments to nonresidents on a magnetic tape, provided the tape meets departmental guidelines described in rule 701—8.31(421,422).

The listing or magnetic tape should be sent to the following address: Iowa Department of Revenue and Finance, Audit and Compliance Division, Individual Section, Hoover State Office Building, P.O. Box 10456, Des Moines, Iowa 50306.

A withholding agent is not exempt from withholding of state income tax on income payments to nonresidents on sales of agricultural commodities or products if the withholding agent does not provide the department of revenue and finance with information on income payments made during the year by April 1 of the subsequent year.

*c.* Information which may be required from withholding agents claiming exemption from withholding on income payments made in the 1985, 1986, and 1987 years. Withholding agents claiming exemption from withholding of state income tax on income payments made to nonresidents for sales of agricultural commodities or products in 1985, 1986, and 1987 may be required to provide the department of revenue and finance the same information on the sales transactions as was described in 46.4(6) “*b*,” paragraphs (1) to (5). However, the withholding agent is not to submit the information to the department unless the withholding agent receives a specific request for the information from the department of revenue and finance.

Withholding agents claiming exemption from withholding of state income tax from income payments made in 1985, 1986, and 1987 to nonresidents on sales of agricultural commodities and products are not exempt from withholding if the withholding agents do not provide the information on the sales transactions which is requested by the department of revenue and finance.

Claims for refund for withholding tax that was paid for income payments made in 1985, 1986, and 1987 will be approved to the extent the withholding tax was attributable to income payments to nonresidents for the sales of agricultural commodities and products and to the extent that the claims for refund were made within the statute of limitations for refunds provided in Iowa Code section 422.73. Therefore, the refund claims will be considered valid if the claims were filed within three years of the date the withholding tax was due or within one year from the time the withholding tax was paid, whichever time is later.

**46.4(7)** *Exemption from withholding of payments made to nonresidents for deferred compensation, pensions, and annuities.* For tax years beginning on or after January 1, 1992, state income tax withholding is not required from payments of deferred compensation, pensions, and annuities made to nonresidents of Iowa which are attributable to personal services of the nonresidents in Iowa. However, the payments are subject to Iowa income tax except in situations where the deferred compensation, pension, or annuity was earned from personal services in Iowa by Illinois residents during the period where the Iowa-Illinois reciprocal agreement was applicable.

Effective for payments of deferred compensation, pensions and annuities made to nonresidents of Iowa on or after January 1, 1993, payers of these payments can elect to withhold Iowa income tax from the payments if the payers choose to withhold Iowa income tax and the recipients of the payments request that Iowa income tax be withheld.

This rule is intended to implement Iowa Code sections 422.15, 422.16, 422.17, and 422.73.

**701—46.5(422) Penalty and interest.** Renumbered as 701—10.50(422), IAB 1/23/91.

**701—46.6(422) Withholding tax credit to workforce development fund.** Upon payment in full of a certificate of participation or other obligation issued to fund a job training program under Iowa Code chapter 260E which occurs on or after July 1, 1995, the community college which provided the training is to notify the department of economic development of the amount paid by the employer or business to the community college during the previous 12 months. The department of economic development is to notify the department of revenue and finance of this amount. The department is to credit 25 percent of this amount to the workforce development fund in each quarter for the next ten years from the withholding tax paid by the employer or business. If the withholding tax paid by the employer or business for a quarter is not sufficient to cover the sum to be credited to the workforce development fund, the sum to be credited is to be reduced accordingly. The aggregate amount from all employers to be transferred to the workforce development fund in a year is not to exceed \$10 million. For purposes of this rule, “year” means the period from July 1, 1995, through June 30, 1996, the period from July 1, 1996, through June 30, 1997, and subsequent fiscal year periods.

This rule is intended to implement Iowa Code Supplement section 422.16A as amended by 1996 Iowa Acts, Senate File 2351.

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